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SWC Submission #: **SWCCE-0022**  
STATE WATER CONTRACTORS  
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Draft-Subject to Review, Draft No. 7  
August 6, 2013, 5:02 PM

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**To:** Department of Water Resources  
**FROM:** State Water Contractors<sup>1</sup>  
**DATE:** August 7, 2013  
**SUBJECT:** Third Offer for Extension of the State Water Project<sup>2</sup> Water Supply Contracts

This document contains a proposed Statement of Principles that could provide the foundation for an agreement among the State Water Project (SWP) Contractors<sup>3</sup> and the Department of Water Resources (DWR) that will extend the contracts.

## **STATEMENT OF PRINCIPLES BY THE SWP CONTRACTORS**

### **1 OBJECTIVE 1: TERM OF CONTRACT**

- a. Extend term of the SWP water supply contracts by 75 years from December 31, 2035 to December 31, 2110.

### **2 OBJECTIVE 2A: RESERVES**

#### **2.1 Funding Level for General Operating Account (GOA)**

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<sup>1</sup> The SWC organization is a nonprofit mutual benefit corporation that represents and protects the common interests of its 27 member public agencies in the vital water supplies provided by California's State Water Project ("SWP"). Each of the SWC member agencies holds a contract with the California Department of Water Resources ("DWR") to receive water supplies from the SWP. Collectively, the SWC members deliver water to more than 25 million residents throughout the state and more than 750,000 acres of agricultural lands. SWP water is served from the San Francisco Bay Area, to the San Joaquin Valley and the Central Coast, to Southern California. The SWC's members are: Alameda County Flood Control and Water Conservation District Zone 7; Alameda County Water District; Antelope Valley-East Kern Water Agency; Casitas Municipal Water District; Castaic Lake Water Agency; Central Coastal Water Authority; City of Yuba City; Coachella Valley Water District; County of Kings; Crestline-Lake Arrowhead Water Agency; Desert Water Agency; Dudley Ridge Water District; Empire-West Side Irrigation District; Kern County Water Agency; Littlerock Creek Irrigation District; Metropolitan Water District of Southern California; Mojave Water Agency; Napa County Flood Control and Water Conservation District; Oak Flat Water District; Palmdale Water District; San Bernardino Valley Municipal Water District; San Gabriel Valley Municipal Water District; San Geronimo Pass Water Agency; San Luis Obispo County Flood Control & Water Conservation District; Santa Clara Valley Water District; Solano County Water Agency; and Tulare Lake Basin Water Storage District.

<sup>2</sup> The State Water Project is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)

<sup>3</sup> The State Water Project Contractors includes the SWC organization's 27 member public agencies, Butte County Water and Resource Conservation, and Plumas County Flood Control and Water Conservation District.



- a. Contingent on the milestones described in Section 2.9.b. for phased increases in GOA funding levels, increase the authorized General Operating Account (GOA) balance from \$22.7 million to \$150 million pursuant to Article 51(a)(3) and Article 51(e)(3)(v).
- b. The GOA funding level is to be a fixed dollar amount independent from a financial policy based on days of operation within the State Water Resources Development Systems (SWRDS). See Section 2.9.c. for future changes to GOA funding level.
- c. The funding source for pre-2035 adjustments to the GOA fixed funding level will be 51(e) revenues.
- d. The funding source for post-2035 adjustments to the GOA fixed funding level will be investment earnings from the SWRDS Reinvestment Account (SRA) introduced within this document under Objective 2b – SWRDS Support Account.

## **2.2 Funding Rate for GOA**

- a. Subsequent to (1) the payoff of the Pooled Money Investment Account (PMIA) loan and (2) the adoption of financial management enhancement contract provisions by DWR, change the GOA fixed funding rate of \$2 million annually, to any amount of available revenues determined in Article 51(e)(1)(ii) subject to the scheduled funding increases set out in the contract provisions and authorized maximum GOA funding level.

## **2.3 Funding Priority for GOA**

- a. Subsequent to (1) the payoff of the Pooled Money Investment Account (PMIA) loan and (2) the adoption of financial management enhancement contract provisions by DWR, the GOA funding priority established by the post-Monterey flow of funds would be modified to establish GOA funding subordinate to rate reductions under Article 51(e)(1)(ii).



## **2.4 Replenishment of the GOA**

- a. Authorize the replenishment of the GOA through the normal statement of charges process pursuant to Article 29 (e), under the billing component that represents the costs incurred which triggered the cash-flow event requiring the use of the GOA.

## **2.5 Interest Earnings on the GOA**

- a. Authorize SWRDS to refund to the Contractors the annual GOA investment earnings.

## **2.6 Uses of the GOA**

- a. Authorize the GOA to be used for any cash-flow deficiencies and/or emergencies resulting from a chargeable water supply purpose within the SWRDS.

## **2.7 Other Cash-flow Mitigation Measures**

- a. Retain 30-day grace period authorized under Article 32(b).
- b. Retain the supplemental billing provisions authorized under Article 51(c)(4).
- c. Retain the Variable billing provisions that authorized the variable component to be based on the number of acre-feet of project water delivered to the contractor during the year and the timing and method of payment under Article 29.

## **2.8 Implementing SWRDS Financial Management Enhancements**

Enhance the Fiscal Policies and Administrative Measures for the Consolidated and Comprehensive Financial Management of the State Water Resources Development System (SWRDS).

### **Phase 1**

- a. By December 31, 2014, DWR shall create and fill the SWRDS General Manager-SWRDS Chief Executive Officer (CEO) position, reporting to the DWR Director,



with the authority and responsibility to manage the SWRDS Chief Financial Officer (CFO) and the SWRDS Chief Operating Officer (COO).

- Minimum Authority and Responsibilities of SWRDS Officers
  - (1) SWRDS General Manager-SWRDS Chief Executive Officer (CEO)
    - Has the responsibility and authority over all SWRDS operations and financial activities within DWR, including the authority to determine the scope of work and budgets for all DWR activities across Divisions funded by the SWRDS.
  - (2) SWRDS Chief Financial Officer (CFO)
    - Responsible for presenting and reporting accurate and timely SWRDS actual and forecasted financial information to facilitate management decisions by both DWR and the State Water Project Contractors.
    - Responsible for the SWRDS current and future financial condition including water sales, financial and managerial accounting, debt financing, capital infrastructure, energy portfolios, financial policies, and treasury and investments management.
  - (3) SWRDS Chief Operating Officer (COO)
    - Responsible for the SWRDS current and future operations including the operating reliability and availability of the System to deliver available water to the State Water Project Contractors.

## Phase 2

- b. By June 30, 2015, establish a State Water Resources Development System Financial Committee, the structure, authority and responsibilities of which will be described in a committee charter approved in writing by Contractors representing at least 80% of Table A of Contractors who have executed the contract extension amendment.
  - Composition of Committee
    - (1) The committee will be comprised of DWR and State Water Project Contractor representatives.



- (2) The Chair of the committee shall be elected by the DWR Director and a majority vote by the State Water Project Contractor representatives.
- Purpose of the Committee
  - (1) To insure the timely development and implementation of the Work Plan for Implementing Financial Management Enhancement in accordance with the minimum criteria set forth in the State Water Project Contracts.
  - (2) To provide financial guidance during the life of the SWRDS enterprise fund which includes the responsibility for recommending financial policies, goals, and budgets that support the financial health and viability of the SWRDS and the State Water Project Contractors.

### Phase 3

- c. The SWRDS Chief Financial Officer (CFO) will submit a financial management enhancement work plan and obtain approval by December 31, 2015 by the State Water Resources Development System Financial Committee. At a minimum, the Work Plan must include the following minimum Work Plan objectives with the completion of the financial management enhancements by December 31, 2017 unless otherwise amended by the State Water Resources Development System Financial Committee.
- Minimum Work Plan Objectives
  - (1) Develop a comprehensive blueprint for establishing a consolidated State Water Resources Development System Financial Organization.
  - (2) Develop a near-term blueprint for consolidating and leveraging the current financial capabilities within DWR to provide available financial and managerial information to the State Water Resources Development System Financial Committee by June 30, 2015.
  - (3) Develop a strategy and blueprint for the SAP financial system to maximize financial data collection and reporting capabilities necessary to meet the financial and managerial reporting requirement objectives.



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- (4) Develop financial and managerial processes and reporting capabilities to meet the following minimum reporting requirements.
- Calendar year SWRDS line item budget by project, task or activity summarized by Reach within the following utility categories: Capital Infrastructure, Operations & Maintenance, and Energy.
  - 10 year rolling forecast of annual revenue requirements that will form the basis of the annual statement of charges.
  - 10 year rolling forecast of annual expenditures by utility categories broken out by the 10 major cost categories (cost elements).
  - Monthly SWRDS budget versus actual reports by Reach and utility categories. Reports will be, at a minimum, the 10 major cost categories (cost elements) comparing budgeted with actual and projected expenditures for the remainder of the calendar year, including variance explanations.
  - Monthly SWRDS cash-flow reports (cash basis) projecting cash in-flows and out-flows for a rolling 18 months.
  - For all open or reopened financial periods, a monthly reconciliation of financial accounting to utility accounting providing full recovery analysis of all SWRDS costs by a SWRDS customers.
  - Automated dashboard reports delivered monthly to the State Water Project Contractors which provide the ability to control the visualization and analysis of the real-time data in real-time. These interactive dashboard reports shall be designed to provide an at-a-glance perspective of the SWRDS financial condition in all utility categories. The dashboard reports shall consolidate key performance indicators to monitor critical issues and assist in identifying areas that need immediate attention.

#### **Phase 4**

- d. By December 31, 2017, complete implementation of the Work Plan providing for the consolidated and comprehensive financial and operational management of the State Water Resources Development System (SWRDS) under the management of the SWRDS General Manager-SWRDS Chief Executive Officer.



## 2.9 Periodic Review and Adjustments

- a. Eliminate the GOA adjustment authorized after 2001 in Article 51(a)(3).
- b. Subsequent to the adoption of financial management enhancement contract provisions by DWR, increases in the funding level of the GOA would be subject to the completion of each requirement phase as follows:

Initial Authorized GOA Funding Level once amendment adopted	\$50 million
Increase authorized GOA funding level at the completion of Phase 1	\$10 million
Increase authorized GOA funding level at the completion of Phase 2	\$10 million
Increase authorized GOA funding level at the completion of Phase 3	\$30 million
Increase authorized GOA funding level at the completion of Phase 4	\$50 million
<b>Authorized GOA Funding Level Under the Financial Management Provisions</b>	<b>\$150 million</b>

- c. Subsequent to the completion of the requirements for the SWRDS Financial Management Enhancements (Phase 1-4), the SWRDS Chief Financial Officer (CFO) will complete a determination of financial need and provide a recommended General Operating Reserve Policy to the State Water Resources Development System Financial Committee for review and approval. The approved financial policy will establish the appropriate GOA funding level including the basis for adjustments. Pre-2035, any GOA funding level adjustments would be included in the annual sources and uses calculation of 51(e) Revenues in the year of the GOA adjustment. Post-2035, any GOA funding level adjustments would be from interest earnings from the SWRDS Reinvestment Account (SRA) introduced within this document under Objective 2b – SWRDS Support Account.

## 3 OBJECTIVE 2B: SWRDS Support Account (SSA)





**3.1 Apportion amounts of revenue collected by the State for additional State Water Resources Development System purposes pursuant to Article 51(e)(1)(iii) in the following priorities:**

- a. Post-2035, eliminate the Annual Rate Reductions authorized under Article 51(e)(1)(ii).
- b. Subsequent to (1) the payoff of the Pooled Money Investment Account (PMIA) loan and (2) the adoption of financial management enhancement contract provisions by DWR, the GOA funding priority established by the post-Monterey flow of funds would be modified to establish GOA funding subordinate to rate reductions under Article 51(e)(1)(ii).
- c. Subsequent to (1) the adoption of financial management enhancement contract provisions by DWR, (2) the adoption of the SWRDS Reinvestment Account (SRA) program by DWR, and (3) the payoff of the Pooled Money Investment Account (PMIA) loan, the State Water Facilities Capital Account pursuant to Article 51(c)(2)(v) shall be closed and the balance of the account transferred to the State Water Resources Development System Support Account (SSA) introduced within this document under Objective 2b – SWRDS Support Account.
- d. Subsequent to (1) the adoption of financial management enhancement contract provisions by DWR, (2) the adoption of the SWRDS Reinvestment Account (SRA) program by DWR, and (3) the payoff of the Pooled Money Investment Account (PMIA) loan, provide pre-2035 funding up to the authorized funding level of \$60 million to the State Water Resources Development System Support Account (SSA).
- e. Subsequent to (1) the adoption of financial management enhancement contract provisions by DWR, (2) the adoption of the SWRDS Reinvestment Account (SRA) program by DWR, and (3) the payoff of the Pooled Money Investment Account (PMIA) loan, provide annual pre-2035 replenishment funds not to exceed the \$60





million funding limit to the State Water Resources Development System Support Account (SSA).

- f. Establish SWRDS Reinvestment Account (SRA) and deposit\_\_\_\_\_ % of the annual balance of Article 51(e)(1)(iii), collected by the State and subsequent to the State Water Resources Development System Support Account (SSA) funding and replenishment requirements, into the SRA, starting in CY2016 and continuing until the completion of the project repayment period.
- g. Apply\_\_\_\_ % of the annual balance of Article 51(e)(1)(iii), collected by the State and subsequent to the State Water Resources Development System Support Account (SSA) funding and replenishment requirements, following the priorities and limitations with respect to the application of additional reductions:
  - (1) Reductions to make up shortfalls in reductions from those projected for the years 1997 through 2000 with interest at the project interest rate authorized under Article 51(e)(3)(i).
  - (2) Reductions to make up shortfalls in reductions from those projected for the years beginning with 2001 without interest authorized under Article 51(e)(3)(ii).
  - (3) Additional reductions in the amount of \$4 million per year apportioned among the Urban Contractors until a total of \$19.3 million in additional reductions have been applied under Article 51(e)(3)(ii – iii).
  - (4) Subsequent to (1) the adoption of financial management enhancement contract provisions by DWR, (2) the adoption of the SWRDS Reinvestment Account (SRA) program by DWR, and (3) the payoff of the Pooled Money Investment Account (PMIA) loan, eliminate the additional 24.7% - 75.3% Agricultural Contractors and Urban Contractors respective reductions authorized by Article 51(e)(3)(vi).



### **3.2 A SWRDS Reinvestment Account (SRA) shall be established.**

- a. The purpose of the SRA shall be to provide a SWRDS revenue stream by reinvesting the SRA balance of Article 51(e)(1)(iii), collected by the State pre-2035, in facilities and programs that benefit the State Water Project.
- b. Authorized SRA investments in order of priority, subject to the State Water Resources Development System Financial Committee review, shall be as follows:
  - (1) Reinvestment in SWP capital facilities, recovered at the prevailing tax-free municipal bond market rates corresponding to the SWRDS bond rating at the time of financing, in 10 to 50 year maturity ranges.
  - (2) Temporary financing in lieu of the SWRDS commercial paper program.
  - (3) Allowable Investment Instruments per State Government Code.
- c. Replenishment or a periodic review of the SRA funding level is not necessary given the nature of the account which is to preserve the SRA balance of Article 51(e)(1)(iii), collected by the State ("principal balance"); insuring that this principal balance can be invested to generate a future revenue stream.
- d. The investment earnings generated by the SRA will:
  - (1) Provide the annual source of replenishment funds, not to exceed the \$60 million funding limit, to the State Water Resources Development System Support Account (SSA).
  - (2) Or be accumulated in the SRA and increase the SRA balance of Article 51(e)(1)(iii), collected by the State and held in this SRA for investment purposes.

### **3.3 Establishment of the SWRDS Support Account (SSA)**

- a. The purpose of the SSA shall be to provide a source of funds to pay for costs of the System where there are no funds or revenue sources available to pay for such costs.



- b. The purpose of the SSA shall be to provide cash-flow reserves in the event that cash-flow deficiencies and/or emergencies result from non-chargeable purposes under the water supply contracts.
- c. Subsequent to (1) the adoption of the SWRDS Reinvestment Account (SRA) program by DWR, (2) the adoption of the SWRDS Support Account (SSA), and (3) the payoff of the Pooled Money Investment Account (PMIA) loan, the calculation of financial needs under Article 51(c) shall reduce the revenue need defined in Article 51(c)(2)(ii) by the annual costs of maintenance and operation of the State Water Development System and the replacement of any part thereof that are not chargeable under the water supply contract. The non-chargeable annual costs under the water supply contract for maintenance and operation of the State Water Development System and the replacement of any part thereof is an authorized use of the SWRDS Support Account (SSA) funds. Both sources of revenues, 51(e) revenues and SSA, will pay for the reasonable costs of the annual maintenance and operation of the State Water Resources Development System and the replacement of any parts thereof, as required under Water Code section 12937(b)(1).
- d. The source and priority of funds for SWRDS specific and joint use Recreation, Fish and Wildlife Enhancement (RFWE) capital, and operation and maintenance costs, shall be as follows:
  - (1) Funding provided by the State of California, or any other non-contractor source, including but not limited to the Davis-Dolwig Account.
  - (2) The SWRDS Support Account (SSA).
- e. The Department shall consult with and consider input from the Contractors regarding the projects and activities for which monies from the SSA are used.



- f. Subsequent to the adoption of financial management enhancement contract provisions by DWR, periodic review and adjustments to the SSA funding level would be subject to the review and approval of the State Water Resources Development System Financial Committee.
- g. Interest and other investment income in the SSA shall be retained in the SSA for SSA purposes reducing the annual SRA replenishment requirement.
- h. At such time, if any, that costs paid from the SSA are reimbursed to the System, the Department shall deposit those reimbursed revenues in the SSA reducing the annual SRA replenishment requirement.

#### **4 OBJECTIVE 3: Simplify the State Water Project Billing Process**

##### **4.1 Elimination of the Replacement Accounting System (RAS)**

- a. Eliminate the Replacement Accounting System (RAS) for Transportation and Conservation Facilities with the intent to have replacement costs treated as a minimum or capital cost. The unencumbered cash balance of the RAS funds are to be returned to the SWP Contractors using the RAS allocation methodology.

##### **4.2 Implement the Freeze-Go Billing Methodology**

- a. Methodology will freeze all costs incurred prior to January 1, 2016, and continue repayment consistent with current contract terms.
- b. Methodology will recover all costs incurred after December 31, 2015, by converting and authorizing repayment on a Pay-As-You-Go methodology.
- c. Amend the definition of the Project Repayment Period to apply only to those costs incurred prior to January 1, 2016.
- d. The term of the Project Repayment Period, January 1, 1961 through December 31, 2035, will remain the same.



- e. The Water Systems Revenue Bond Surcharge will apply only to those costs incurred prior to January 1, 2016 and will terminate at the completion of the Project Repayment Period.
- f. Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to January 1, 2016. The Project Interest Rate will remain 4.610%.

#### **4.3 Defining the Pay-As-You-Go Repayment of Costs Incurred Post-2015**

- a. The annual cost recovery within a bill year for estimated annual operation, maintenance, power, and replacement costs for project conservation facilities.
- b. The annual recovery of actual debt service, created by SWRDS financing activities, within a bill year for financed capital transportation and conservation facilities.

#### **4.4 Defining the Pay-As-You-Go Repayment of Actual Debt Service from SWRDS Financing Post-2015 Capital Costs**

- a. Authorize SWRDS to finance 100% of all capital costs.
- b. Authorize SWRDS to use various methods of financing including Water System Revenue Bonds and SRA, with each method providing an annual repayment schedule which includes a principal and interest component over the life of the financing.
- c. Authorize SWRDS to bill an amount that is equal to the accumulated annual debt service payments due per the debt service schedules or matching dollar for dollar the SWRDS annual debt service payments including the bond cover requirements, providing 100% capital cost recovery at the financed interest rate over the term of the financing while meeting the additional bond debt cover requirements.

#### **4.5 Expanding Water System Facilities Authorized to be Financed by Water System Revenue Bonds Under Article 1(hh)**



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August 6, 2013, 5:02 PM

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- a. Eliminate the January 1, 1987 date for existing facilities within Article 1(hh)(8); provision to now read as follows, “ Finance all repairs, additions, and betterments to conservation or transportation facilities and to all other facilities described in this sub-article (hh) except for item (5) the land acquisition prior to December 31, 1995 for the Kern Fan Element of the Kern Water Bank.”
- b. Add provision to Expand 1(hh) to include “Finance all other capital projects mutually agreed upon in writing by DWR and 80% of the affected Contractors”.